



Review of the Mayor's Five-Year Financial Outlook FY 2009-2013

Budget & Finance Committee
January 30, 2008



General Fund Revenue

- Increase of \$207 million from FY08 – FY13 (18.7%)
- 4 major revenue sources: property tax, sales tax, TOT, franchise fees
 - Over 70% of total GF Revenue
 - Over 90% of *growth* in GF Revenue
- Highly sensitive to economic conditions



General Fund Revenue

Property Tax

- FY09: 6%; FY10-13: 4%
- Growth impacted by housing market
- Not expected to turn negative
- Several risk factors:
 - Foreclosures
 - Reassessments
 - Commercial sector



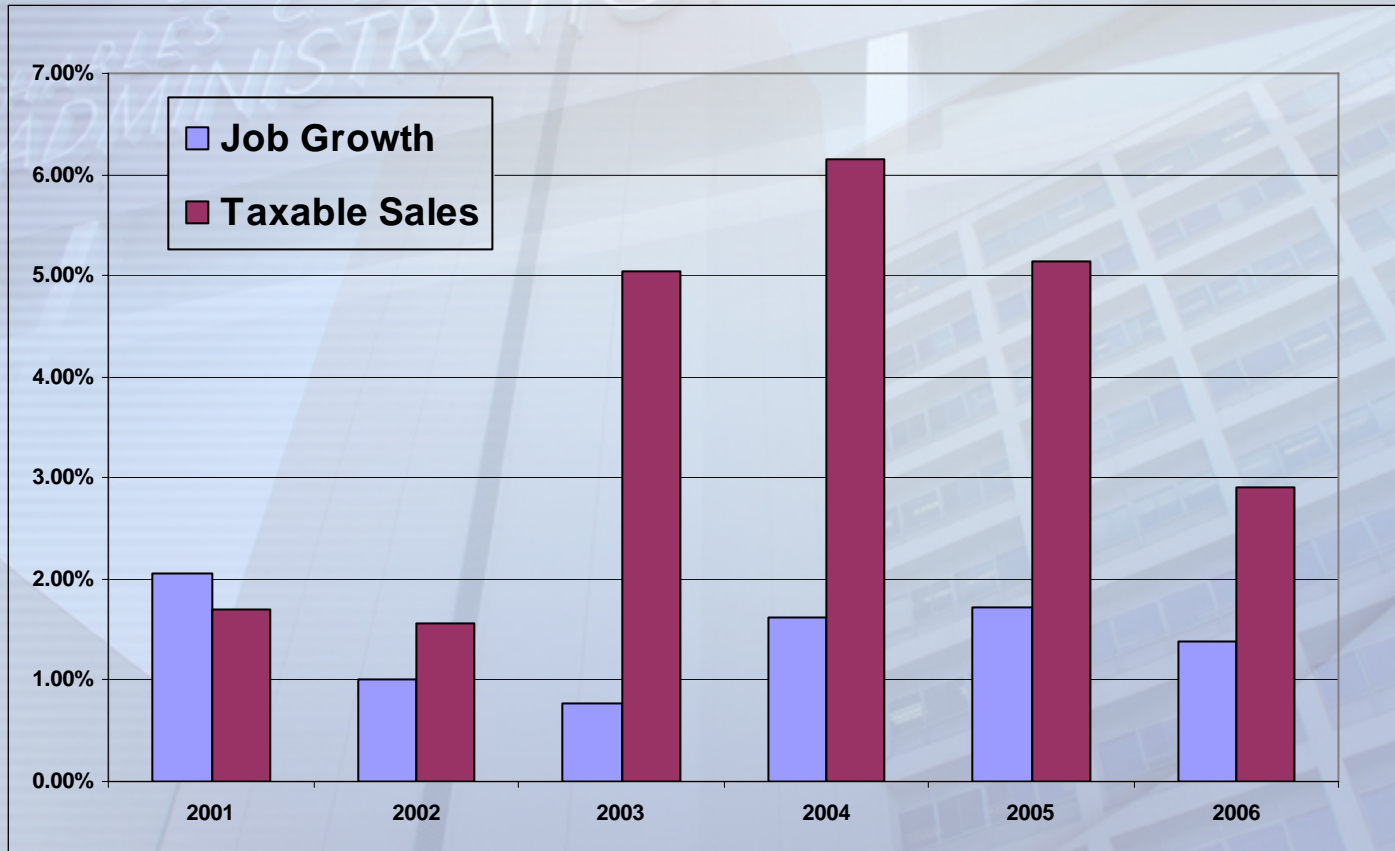
General Fund Revenue

Sales Tax

- FY09: 1.25%; FY10: 3%; FY11-13: 4%
- Reflects *increased* growth from FY08
- Driven by income, savings
- Growth in past few year driven by housing market
 - New purchases
 - Refinancing
 - “Wealth effect”



General Fund Revenue *Sales Tax*





General Fund Revenue

Sales Tax

- Consumer spending likely to weaken
- Housing will not provide stimulus
- Impact of Federal stimulus package unclear
- Growth rates may be overly aggressive
- Biggest “wildcard” – need to watch very closely



General Fund Revenue

Transient Occupancy Tax

- FY09: 7.5%, FY10-13: 7.0%
- Sensitive to national economic conditions
- Tourism expected to decline with weakening economic outlook
- ConVis forecasts slower growth in CY 2008
- Falling value of \$ and TMD may counteract



General Fund Revenue

Franchise Fees

- FY09-13: 7.5% (SDG&E, Cable)
- One of most difficult to project
- Projections rely heavily on historical trends
- Area for additional research



General Fund Revenue

Other Revenues

Booking Fees

- Included in all years of the Outlook
- Ongoing negotiations with County
- Need status update

Employee Offset Savings

- \$10.1m included in each year to backfill TSR
- Unclear if additional EOS revenues included
- Unclear if EOS will continue past FY08



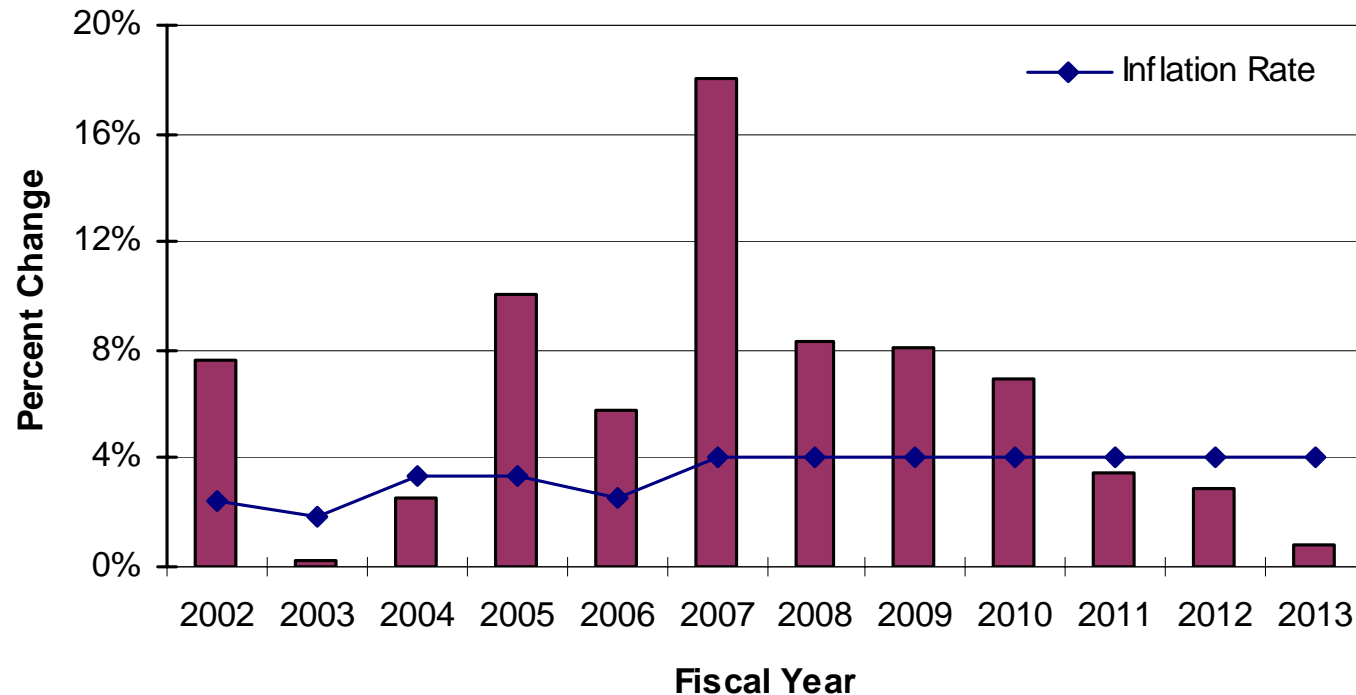
General Fund Revenue

- Provides a solid foundation for the Outlook
- Reasonable assumptions
- Generally reflect expected economic outlook
- Discussion of possible impact of recession would have been valuable
- Highly dynamic, should be updated frequently



General Fund Expenditures

**General Fund Budgeted Expenditures
Annual Percentage Change over Prior Year**





General Fund Expenditures

- Salaries and Wages
 - Previously approved increase for police officers included
 - Possible impact from current labor negotiations
 - Past experience

Annual Salary Cost for a 1% Increase	
Bargaining Unit	Projected Increase
Municipal Employees Association (MEA)	\$1.5 m
Local 127	\$0.4 m
Local 145-Fire	\$0.6 m
POA-Police	\$1.5 m
Unclassified and/or Unrepresented*	\$0.5 m
Total (General Fund only)	\$4.5 m

*Includes Deputy City Attorneys



General Fund Expenditures

- Fringe Benefits
 - 2005-2008: Increases fluctuate from 6-22%
 - 2009-2013: Increases fluctuate from 1-9%
- Supplies and Services
 - 2005-2008: Increases fluctuate from (1)-61%
 - 2009-2013: Increases fluctuate from (9)-3%



General Fund Expenditures

- Information Technology
 - 2005-2008: Increases fluctuate from 4-50%
 - 2009-2013: Increases fluctuate from 4-10%
- Energy/Utilities
 - 2005-2008: Increases fluctuate from 0-44%
 - 2009-2013: Increases fluctuate from 9-12%
- Equipment Outlay
 - 2005-2008: Increases fluctuate from (26)-12%
 - 2009-2013: Increases fluctuate from 1-17%



General Fund Expenditures

Vacancy Factor

Fiscal Year	Previous Outlook	Current Outlook	Adopted Budget
2007			5.3%
2008	3.5%		4.8%
2009	3.0%	3.4%	
2010	2.5%	3.2%	
2011	2.4%	3.0%	
2012	2.3%	2.5%	
2013		2.4%	

- Has the following been addressed in Outlook?
 - Additional vacancy reductions
 - Allocation of VF between Salary & Fringe
 - Adjustments to Police VF



General Fund Expenditures

- Future Committed Expenditures
 - \$29.3 million over the five-year period for new/annualization of facilities and mandates
- Additional Resources Not identified
 - Sworn/civilian personnel in Police or replacement of outdated equipment
 - No increase for fire-related expenses
 - Brush Management, Helicopter
 - Recycling Ordinance
 - Ongoing maintenance to ensure backlog of deferred maintenance does not keep growing



General Fund Expenditures

- Terminal Leave
 - Additional funding may not be needed due to high level of salary savings
 - Recommend close monitoring

**Funding of Terminal Leave
Comparison of Past Expenditures
with Outlook (in millions)**

Fiscal Year	Actual Expend.	Outlook Projections
FY05	\$3.4	
FY06	\$5.9	
FY07	\$4.0	
FY08*	\$4.0	
FY09		\$5.6
FY10		\$11.0
FY11		\$11.4
FY12		\$13.0
FY13		\$13.0
Total	\$17.3	\$54.0

**Source: 2007 Year-End Budget Adjustments Report*



Eight Significant Areas Pension

- ARC proposed at \$165M for FY 09 in Outlook
 - \$161.7M in SDCERS valuation
- ARC Plus reference no longer applicable

	in millions
FY 2008 ARC	\$ 137.7
Change to 20 Year Amortization	\$ 13.0
Elimination of any negative amortization	\$ 9.4
Change to EAN funding methodology	\$ 6.4
Favorable experience gain	\$ (4.9)
FY 2009 ARC	\$ 161.6
*may not add due to rounding	

- Nevertheless, Mayor's policy to eliminate negative amortization accomplished
- Outlook should discontinue displaying monies above ARC are being paid



Eight Significant Areas Pension

Not mentioned:

- Proposition G (2004)
- Benefits in excess of IRC 415(b)



Eight Significant Areas

General Fund Reserves

- \$7.0M allocated in FY09 to reach target of 6.5% (combination of Emergency, Appropriated, Unallocated reserves)
- Outlook assumes beginning of year balance of approx. \$70M in reserves
- However, current balance at almost \$86M, 7.7% of budget, far in excess of target for FY 08 and 09
- Need more detail on assumptions for depletion of reserves below target by June



Eight Significant Areas

Deferred Maintenance and ADA

- \$145.6M for **deferred maintenance** for FY 2008 & 2009
 - \$102.3M bond financing
- Comprehensive list of maintenance needs not yet identified
- Financing proposals to be brought to Council
- No list of what projects to accomplish with bond funding for FY 2009

- \$10M for **ADA compliance**
- Sale of City land still source for this?
- Comprehensive list of deficiencies yet to be quantified
- Update recommended



Eight Significant Areas

OPEB

- \$50M allocated for total OPEB in FY 2009
- Unlike last year's Outlook, \$50M includes PAYGO amounts, as well as pre-funding amounts
- Outlook could lead reader to believe that \$25M more will be contributed to OPEB in FY 2009 over FY 2008
- Recommend more accurate portrayal of contributions:

OPEB (in millions)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
PAYGO	23.1	23.0				
Partial pre-funding	25.0	27.0				
Full ARC			75.0	75.0	75.0	75.0
TOTAL	48.1	50.0	75.0	75.0	75.0	75.0

- Recent actuarial valuation shows ARC in FY 2009 much higher (\$85M) than expected in Outlook (\$75M in FY 2010)



Eight Significant Areas

Storm Water

- \$54.5M proposed for FY 09 for permit compliance
- Outlook inconsistent with revised URMP

Storm Water Compliance Funding Outlook vs. URMP (in millions)			
Fiscal Year	Current Outlook	URMP	Diff.
FY08	\$43.0	\$43.0	\$0.0
FY09	\$54.5	\$54.2	\$0.3
FY10	\$61.6	\$54.2	\$7.4
FY11	\$61.6	\$55.2	\$6.4
FY12	\$61.6	\$56.3	\$5.3
FY13	\$61.6	\$57.3	\$4.3
Total	\$343.9	\$320.2	\$23.7

**Totals may not add due to rounding*

- General Fund primary funding source; alternative funding sources should be discussed



Eight Significant Areas

Public Liability Reserves

- \$5M allocated in FY 09 for Public Liability Reserve
- Pre-2008 reserves of \$4M exhausted
- FY 2008 allocation of \$5M to reserves is no longer reserved

		Assuming \$114 M claims	Per Outlook	
Fiscal Year	Public Liability Reserve Target per Policy	Reserve Needed (in millions)	Annual Reserve Allocation (in millions)	Cumulative Reserve* (in millions)
2009	10%	\$11.4	\$5.0	\$5.0
2010	15%	\$17.1	\$5.0	\$10.0
2011	25%	\$28.5	\$10.0	\$20.0
2012	35%	\$39.9	\$10.0	\$30.0
2013	45%	\$51.3	\$10.0	\$40.0
2014	50%	\$57.0	\$10.0	\$50.0

- Outlook allocations insufficient to meet target in all years



Eight Significant Areas

Workers' Comp Reserves

- \$5M allocated in FY 09 for Workers' Compensation Reserve
- Reserves currently stand at \$20.4M and growing (contributions in excess of payments)

		Assuming \$161 M claims	Per Outlook	
Fiscal Year	Workers' Comp Reserve Policy Target	Cumulative Reserve Need	Annual Reserve Amount (in millions)	Cumulative Reserve (in millions)
2008	12%	\$19.3	--	\$20.4
2009	15%	\$24.2	\$5.0	\$25.4
2010	22%	\$35.4	\$10.0	\$35.4
2011	30%	\$48.3	\$10.0	\$45.4
2012	35%	\$56.4	\$10.0	\$55.4
2013	42%	\$67.6	\$10.0	\$65.4
2014	50%	\$80.5	\$10.0	\$75.4

- Outlook allocations insufficient to meet target in most years



Eight Significant Areas Summary

Outlook Topic	Agree With Assumptions	Inaccurate/ Inconsistent Info	More Info Needed	Notes
Pension	Yes	✓		See Outlook Table III - portrays money above ARC being paid
General Fund Reserves	No	✓	✓	Need assumptions about significant depletion of 08 reserves
Deferred Maintenance	Neutral		✓	Need information about magnitude of problem
OPEB	No	✓		See Outlook Table III -not consistent with last year's policy
Storm Water Compliance	No	✓	✓	Does not match adopted URMP
ADA Compliance	Neutral		✓	Need information about magnitude of problem
Liability Reserve	No	✓		Unclear as to estimated reserve balance at 08 year-end
Workers' Comp Reserve	Yes			



Corrective Actions

Leveraging City Assets

- \$21.8M in property sales planned for FY 09
- Status update on FY 08 sales needed
 - Memo forthcoming
 - Department expects to meet \$15.3M budgeted sales

Health Care Reform Savings

- \$1.2M in savings in Outlook for FY 09
- For FY 08, \$2M in possible savings per Mayor's press releases; \$1M in savings in budget
- Update on actual savings has been requested; more information needed



Corrective Actions

Special Promotional Programs

- Outlook assumes new \$1M transferred to General Fund for promotion-related expenditures in FY 09, not yet identified
- This reflects the “increment” between 4-cent Muni Code requirement and projected net TOT Allocations
- 4-cent requirement continues to grow over Outlook period, but net TOT Allocations stay relatively flat
- Outlook contains no information on how this increment will be used, or 4-cent requirement met, in future years



Corrective Actions

Budget Reductions

- \$32M deficit to be bridged through 10% reduction plans submitted by all departments, excluding public safety
- Park & Rec and Library are high priority services for City Council; excluding these two departments, almost all of the 10% reductions from other departments must be taken to bridge gap

	<u>FY08 Budget</u>	<u>10% Target</u>
General Fund Total Budget	\$1,106,330,952	\$110,633,095
Police	\$392,336,695	
Fire-Rescue	\$179,943,098	
Non-mayoral Departments	\$60,046,348	
Subtotal	<u>\$632,326,141</u>	
<i>Less Public Safety/Non-mayoral:</i>	\$474,004,811	\$47,400,481
Additional Scenario:		
Park & Recreation	\$87,520,141	
Library	\$37,630,664	
Subtotal	<u>\$125,150,805</u>	
<i>Less Parks and Library</i>	\$348,854,006	\$34,885,401



Corrective Actions

Budget Reductions

- Deficit may be larger due to additional developments, such as labor negotiations
- Across-the-board percentage reductions are equitable, but lack thoughtful analysis of priorities and service impacts
- Least preferred method to address financial issues by City Council (Jan. 2007)
- State Legislative Analyst concerns regarding across-the-board reductions in Governor's Proposed Budget



Corrective Actions

BPR and Managed Comp

- Previous Outlook included \$86.4M in savings from **BPR**, but not mentioned in current Outlook
- Targeting inefficiencies through BPR is a better strategy than across-the-board reductions
- Managed Competition included in previous Outlook (no savings identified), but not mentioned in current Outlook
- **Managed competition** scheduled to occur during the Outlook period



Corrective Actions Summary

Outlook Topic	Agree with Assumptions	Inaccurate/ Inconsistent Info	More Info Needed	Notes
Leveraging City Assets	Neutral		✓	Need status of progress of current sales & proposed new properties to be sold
Health Care Reform	Neutral		✓	New to Outlook but included in 2008 budget
Proposition 1B Funding	Yes			
Special Promotional/TMD	Yes		✓	Insufficient detail on how \$1million in 2009 is derived. Unclear what happens in future years.
Budget Reductions	Neutral		✓	Magnitude of deficit uncertain; service implications unknown



ANALYSIS OF RISKS TO FIVE YEAR OUTLOOK

**A discussion of “risks” to
assumptions can provide
additional insight to a multi-year
financial forecast**



RISK EXAMPLES:

- Recessionary impacts on City revenues
- Real estate market impacts on land sales
- Unpredictable legal fees and liability costs
- Wildfire cost reimbursements



ITEMS NOT CONSIDERED/ MENTIONED – EXAMPLES:

- Reengineering and managed competition
- Prop. G (15-year pension amortization)
- Future significant unfunded needs of departments
- Mitigations for Refuse Disposal and Recycling Funds



ITEMS NOT CONSIDERED/ MENTIONED (con't.)

- Chargers relocation
- Civic Center Redevelopment
- Central Library
- Additional funding for wildfire prevention and preparedness



ADDITIONAL SUGGESTIONS FOR FUTURE OUTLOOKS BASED ON:

- Review of other municipal forecasts
- Review of Comptroller's Analysis of NYC Mayor's Five Year Forecast



EXAMPLES:

- Provide current year baseline data (FY 2008 data plus FY 2009-2013)
- Identify major facilities and expenditures in “Future Committed Expenditures”
- Discuss community service levels and goals for the future
- Explain policy differences between previous outlook and new outlook



EXAMPLES (con't.):

- Provide a brief update on the progress of existing corrective actions that continue into the future
- Define magnitude of the problem being addressed (ADA, Deferred Maintenance, etc)
- Provide review of other funds (water, wastewater, etc.)



CONCLUDING REMARKS ON OUTLOOK

- Mayor has continued strong focus on funding significant areas critical to future fiscal health
- No new significant solutions emerged for addressing future deficits
- Some positive corrective actions from last year (reengineering and managed competition) not included in this outlook



CONCLUDING REMARKS (con't.)

- Fewer corrective actions contemplated this year than last year
- Information less comprehensive than last year, more difficult to evaluate assumptions



Office of the Independent Budget Analyst

Description	Included in 2008-2012 Outlook?	Implemented in Fiscal Year 2008 Budget?	Included in 2009-2013 Outlook?
EIGHT SIGNIFICANT AREAS			
Pension	✓	Yes	✓
Reserves	✓	Yes	✓
Deferred Maintenance/ Capital Improvements	✓	Yes	✓
Other Post Employment Benefits (OPEB)	✓	Yes	✓
Storm Water	✓	Yes	✓
ADA	✓	Yes	✓
Workers' Compensation Fund	✓	No	✓
Public Liability Fund	✓	Yes	✓
CORRECTIVE ACTIONS			
Position/Budget Reductions	✓	Yes	✓
Business Process Reengineering (BPRs)	✓	Yes	
Furlough	✓	No	
Debt Refinancing	✓	Yes	
TMD/Special Promotional	✓	Yes	✓
Budget Clean-Up	✓	Yes	
Leveraging City Assets	✓	Yes	✓
Managed Competition	✓	No	
Health Care Savings		Yes	✓
Proposition 1B		No	✓